



STATE OF MICHIGAN
DEPARTMENT OF EDUCATION
LANSING

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November 14, 2014

MEMORANDUM

TO: State Board of Education

FROM: Martin Ackley, Director, Office of Public and Governmental Affairs

SUBJECT: State and Federal Legislative Update

MICHIGAN SENATE

On November 12, the Standing Committee on Appropriations reported Senate Bills 951, 952, 954, 955, 978 and 1077 to address concerns regarding Financially Distressed School Districts and Local School District Financing.

(MCL 388.1617a & 388.1618) as a substitute (S-3) SB 951 withholds State Aid for failure to comply with Uniform Budgeting and Accounting Act. The Michigan Department of Education already may withhold payments to a district or intermediate district as part of a plan under the Emergency Municipal Loan Act or the Local Financial Stability and Choice Act. Under this bill, payment may be withheld in full or in part to the extent to which the withholdings are part of a plan developed and implemented pursuant to Section 1356 of the Revised School Code, which provides for the borrowing of money by districts with deficits of \$100 or more per pupil with State approval, and allows for the pledging of future State school aid payments.

- An allocation to a district or intermediate district is contingent upon the district's or intermediate district's compliance with Section 17a.
- A district or intermediate district shall adopt an annual budget in a manner that complies with the Uniform Budgeting and Accounting Act.
- Deadlines for reporting financial data are changed from November 15th to October 15th of each year.
- If a district or intermediate district does not comply, MDE may withhold up to 10 percent of the total state school aid due to the district or intermediate district, beginning with the next payment due to the district or intermediate district, until the district or intermediate district is in compliance.
- If the district or intermediate district does not comply by the end of the fiscal year, the district or intermediate district forfeits the amount withheld.
- An allocation to a district or another entity is contingent upon the district's or entity's compliance.

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(MCL 380.1-380.1852) SB 952 as a substitute (S-2) Educational entities in deficit or in potential financial stress.

- Prescribes procedures, notification and budget-cutting requirements, and monitoring for a school district experiencing a deficit or is in the midst of “rapidly declining financial circumstances,” including substantial declines in enrollment.
- The MDE may require an academic plan.

(MCL 388.1702) SB 954 Withholding funds for failure to submit Deficit Elimination Plans or Enhanced Deficit Elimination Plans.

- If a district or intermediate district is required to submit a deficit elimination plan, and the district or intermediate district fails to submit a deficit elimination plan or the deficit elimination plan is not approved, the MDE may withhold some or all of the money payable to the district or intermediate school district in an amount the MDE determines necessary to incentivize the district or intermediate district to eliminate the deficit.
- The MDE shall release money withheld after the department approves the deficit elimination plan.
- To assure greater coordination and effective partnerships in the development and implementation of a deficit elimination plan, the MDE shall consult with the Department of Treasury, the Chief Administrative Officer of the district or intermediate district, and the intermediate superintendent of the intermediate district in which the district is located.
- A quarterly deficit district report to the Legislature is no longer required.
- Language prescribing the existing process for submitting a deficit elimination plan is removed and expected to be moved to Section 1120 of the Revised School Code (SB 952).
- A district or intermediate district’s school aid payment is contingent upon compliance

(MCL 141.933) SB 955 as a substitute (S-1) amends the Emergency Municipal Loan Act to authorize loans to school districts for up to \$100 million (up from \$50 million) through September 30, 2018. Total loans per entity are still capped at \$20 million.

- Restructuring payments would be possible even if the foundation allowance isn’t less than it had been in the state fiscal year in which the loan was authorized.
- Currently, a school district may be eligible for a loan if pupil membership has declined by 15 percent or more over the preceding three state fiscal years. An additional eligibility option allows for the Department of Treasury to consider whether the loan will assist the school district in resolving a financial emergency or fiscal stress within the school district.
- Current eligibility options are that the school district has a general fund deficit, has already issued school aid anticipation notes, and has submitted a 5 year financial plan for a balanced budget.

(MCL 21.141) SB 978 Removes the loan limits between FY 2011-12 through FY 2017-18 and adds references to limitations in the Emergency Municipal Loan Act.

- Increase the total amount of loans that the Emergency Financial Assistance Loan Board is authorized to make to school districts from \$50 million to \$100 million through September 30, 2018.
- Revise the eligibility criteria for loans.
- Eliminate requirements that restrict the ability of the Board to restructure repayments on existing emergency municipal loans.
- Senate Bill 978 would amend Public Act 105 of 1855, which governs the disposition of surplus funds in the State Treasury, to do the following:
- Remove the current limitations on the amount of surplus funds that can be loaned to municipalities and school districts during the period from fiscal year (FY) 2011-12 to FY 2017-18.
- Replace the current loan limits with references to the limits under the Emergency Municipal Loan Act.

(MCL 388.1923) SB 1077 as a substitute (S-1) Amends the School Bond Qualification, Approval, and Loan Act.

- Changes the definition of computed millage to repay qualified bonds by striking the minimum of seven mills; but retain the minimum computed millage at seven mills for a district that received a qualified loan or had an outstanding qualified loan balance.
- Removes the June 30, 2016, sunset on the \$1.8 billion limitation on the amount of qualified school loans outstanding, which allows a school district to be newly qualified for a bond issue that is like to result in additional qualified loans only if the State's outstanding balance of qualified school loans is less than \$1.8 billion.
- Add an expiration date for any preliminary qualification, which would be 10 years after the date of issuance of the preliminary qualification or an earlier expiration date set by the Department of Treasury in the preliminary qualification order.
- Require that a project remain substantially the same from preliminary qualification to the application for qualification in order for the State Treasurer to approve bond qualification.
- Add several pieces of information to be included on a ballot submitted to school electors requesting authorization to issue bonds.
- Clarify throughout the statute that the millage necessary to be levied to participate in the qualified bond loan program must be the computed millage, which is the calculated amount necessary to repay the bonds and any qualified loans by the final mandatory repayment date.
- Remove the current authority for the State Treasurer to issue bulletins and guidelines related to implementation of the Act.

The Senate Education Committee has not met in the month of November.

FEDERAL UPDATE

GAME-CHANGING EVALUATIONS

The U.S. Department of Education (USED) is soliciting ideas on which high priority, high leverage evaluations it should fund in order to help drive major improvements in P-12 education. USED is interested in hearing about which evaluation questions, if answered, would provide information that students, parents, educators, policymakers, and other stakeholders could use to improve strategies, programs, and services for students.

GAINFUL EMPLOYMENT RULES

To protect students at career colleges from becoming burdened by student loan debt they cannot repay, the U.S. Department of Education (USED) has issued regulations to ensure that these institutions improve their outcomes for students – or risk losing access to federal student aid. These regulations will hold career training programs accountable for putting their students on the path to success. They complement action by the Administration to protect consumers and prevent and investigate fraud, waste, and abuse – particularly at for-profit colleges.

PRESCHOOL DEVELOPMENT GRANTS

U.S. Education Secretary Arne Duncan and Health and Human Services Secretary Sylvia Burwell announced 35 states have applied for grants under the \$250 million Preschool Development Grants program. Over 25 high-need communities in 12-15 states will benefit from program funding by significantly expanding their preschool programs so that a large portion of their at-risk four-year-olds start school prepared. States with either small (currently serve less than 10% of four-year-olds) or no state-funded preschool programs are eligible for Development Grants, while states with more robust (currently serve at least 10% of four-year-olds) state-funded preschool programs or a Race to the Top-Early Learning Challenge Grant are eligible for Expansion Grants. Preschool programs funded under either category will need to meet the program's criteria for high-quality. Awards will be announced on December 10 at a White House Summit on Early Education.

If you have any questions or concerns regarding these or other legislative issues, please contact me at (517) 241-4395.